



## Results Below Expectations; Improving Outlook to Support Growth

**Est. Vs. Actual for Q4FY24:** Revenue – **MISS** ; EBITDA Margin – **MISS** ; PAT – **MISS**

### Changes in Estimates post Q4FY24

**FY25E/FY26E:** Revenue 0.5%/0.5%; **EBITDA** 1%/1%; **PAT** 0.5%/ 1%

### Recommendation Rationale

- The outlook for vertical businesses such as Security Solutions and Facility Management remains good.
- The International business has improved and is likely to regain momentum.
- The management is confident that demand will pick up in the medium term based on orders it has won in recent quarters. It also expects further improvement in its margins moving forward.

### Sector Outlook: Cautiously positive

**Company Outlook & Guidance:** The management has given an improved outlook for FY25, backed by the robust pick-up in Security Business and Facility Management in India. The company's margins are likely to expand in the near term.

**Current Valuation:** 16x FY26E P/E; Earlier Valuation: 16x FY26E

**Current TP:** 540/share (Earlier TP: Rs 540/share)

**Recommendation:** Given the company's strong recovery potential backed by strong deal wins and improved client engagement, we **maintain** our **BUY** recommendation on the stock.

### Financial Performance

In Q4FY24, SIS reported revenue of Rs 3,138 Cr, registering a growth of 2%/5% QoQ/YoY. The company's consolidated EBITDA for the quarter de-grew by 3.8% QoQ to Rs 150 Cr on account of the rebound of international business and strong demand for Indian security solutions. It reported a net income of Rs -11.7 Cr, which declined by 132%/113% QoQ/YoY. Security Services in India declined for the quarter by 0.7% QoQ. However, the management is confident about the rising demand for security guards and mandatory checkups moving forward.

### Outlook

From a long-term perspective, we believe SIS is sorting out client-specific engagement in verticals such as International business. However, rising concerns over the prospects of large economies along with prevailing business and demographic constraints pose uncertainties over the company's short-term growth rates.

### Valuation & Recommendation

We recommend a **BUY** rating on the stock and assign a 16x P/E multiple to its FY26E earnings of Rs 34.7/share to arrive at a TP of Rs 540/share, implying an upside of 10% from the CMP.

### Key Financials (Consolidated)

(Rs Cr)	Q4FY24	QoQ (%)	YoY (%)	Axis Est.	Variance
Net Sales	3,138	2%	5%	3180	-1%
EBIT	149.6	-3%	11%	120	25%
EBIT Margin	5%	230 bps	300 bps	4%	26%
Net Profit	-11.7	-132%	-113%	38	-131%
EPS (Rs)	2.5	0%	-64%	2.7	-7%

Source: Company, Axis Research

(CMP as of 2 May 2024 )

CMP (Rs)	454
Upside /Downside (%)	19%
High/Low (Rs)	560/374
Market cap (Cr)	6,544
Avg. daily vol. (6m)Shrs.	5,94,320
No. of shares (Cr)	14.6

### Shareholding (%)

	Sep-23	Dec-23	March-24
Promoter	49.2	49.2	49.2
FIs	9.2	10.8	10.8
MFs / UTI	11.8	11.4	11.4
Banks / FIs	29.9	28.8	28.8
Others	49.2	49.2	49.2

### Financial & Valuations

Y/E Mar (Rs Cr)	FY24	FY25E	FY26E
Net Sales	12,261	13,699	15,180
EBITDA	585	863	956
Net Profit	206	435	507
EPS (Rs)	14.09	29.74	34.66
PER (x)	25.7	12.2	10.4
P/BV (x)	2.0	1.7	1.5
EV/EBITDA (x)	5.1	3.1	2.5
ROE (%)	8%	15%	15%

### Change in Estimates (%)

Y/E Mar	FY25E	FY26E
Sales	0.5%	0.5%
EBITDA	1%	1%
PAT	0.5%	1%

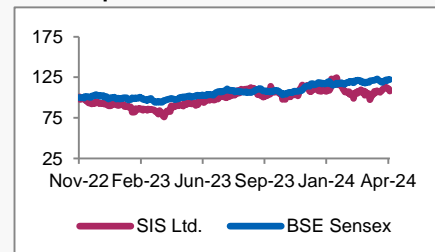
### ESG disclosure Score\*\*

Environmental Disclosure	44
Social Disclosure Score	60
Governance Disclosure	59
Total ESG Disclosure Score	51

Source: Bloomberg, Scale: 0.1-100

\*\*Note: This score measures the amount of ESG data a company reports publicly and does not measure the company's performance on any data point. All scores are based on 2020 disclosures

### Relative performance



Source: AceEquity, Axis Securities

**Omkar Tanksale**

Research Analyst

Email:omkar.tanksale@axissecurities.in

## Key Highlights

- **Medium-term demand continues:** The Indian security business continued to be strong and delivered growth of 7.8% YoY in terms of volume. But it decline sequentially by 0.7% QoQ. Moreover, major wins for the company during the quarter were verticals such as Finance, Retail, Healthcare, and Education. The company's EBITDA margins continued to improve with strong profit improvement initiatives.
- **Strong pick-up in the International Business:** On the International Business front, the Security Solutions International business recorded a revenue of Rs 1,245 Cr for the quarter, up 6.1% QoQ and 2.1% YoY. This growth was primarily driven by new wins in the Mining, Education, Manufacturing, Retail, and Real Estate sectors. The EBITDA margin for Q4FY24 was 4.3% compared to 3.9% in Q3FY24.
- **Facility management:** The Facility Management Solutions segment continued its growth momentum with 3.3% revenue growth YoY and -1% growth QoQ for the quarter, reaching revenue of Rs 520 Cr for the quarter. Major wins during the quarter came from Real Estate, Education, Government, Manufacturing, and Healthcare. The EBITDA margin for Q4FY24 improved to 3.9% from 4.3% in Q3FY24 due to the shedding of low-profit contracts and overhead management.
- **Cash logistics business:** The Cash Logistics segment sustained its robust revenue growth, achieving an 8.8% YoY increase. However, there was a slight decline of 0.2% QoQ for the quarter. The YoY growth was primarily fueled by new wins in the cash-in-transit (CIT) business. In Q4FY24, the EBITDA reached Rs 30 Cr, marking a significant YoY increase of 22.3%. Additionally, the Q4FY24 EBITDA margin stood at 18.2%.

## Key Risks to our Estimates and TP

- **The demand environment is uncertain because of the potential threat of recession in the world's largest economies.**
- **The rising subcontracting cost and cross-currency headwinds may impact the company's operating margins negatively.**

**Results Review**
**(Rs Cr)**

In Cr	Q4FY24	Q3FY24	Q4FY23	% change (YoY)	% change (QoQ)
<b>Total Revenue</b>	<b>3,137</b>	<b>3,073</b>	<b>2,995</b>	<b>5%</b>	<b>2%</b>
Total Cost of Sales	2,987	2,918	2,860		
<b>EBITDA</b>	<b>149.6</b>	<b>155</b>	<b>134.8</b>	<b>11%</b>	<b>-3%</b>
Margin (%)	5%	5%	5%	-28	
Depreciation	48.2	41	37.9		
<b>Operating Income</b>	<b>101.4</b>	<b>114</b>	<b>96.9</b>	<b>5%</b>	<b>-11%</b>
Margin (%)	3%	4%	3%	-77	0
Total Other Income/(Expense)	22.2	12.3	21.2		
<b>Income Before Income Taxes</b>	<b>17.3</b>	<b>81.7</b>	<b>85.4</b>		
Total Taxes	28.9	44.7	-7.7		
ETR (%)	167%	55%	-9%	11205	17607
<b>Net Profit After Taxes</b>	<b>-11.7</b>	<b>36.9</b>	<b>93.1</b>	<b>-113%</b>	<b>-132%</b>
Margin (%)	0%	1%	3%	-	-
<b>EPS</b>	<b>-0.8</b>	<b>2.5</b>	<b>1.75</b>	<b>-146%</b>	<b>-132%</b>

Source: Company, Axis Securities

## Financials (consolidated)

### Profit & Loss

(Rs Cr)

Y/E March	FY23	FY24	FY25E	FY26E
Net revenues	11,346	12,261	13,699	15,180
Other operating Income	0	0	0	0
<b>Total Operating income</b>	<b>11,346</b>	<b>12,261</b>	<b>13,699</b>	<b>15,180</b>
Employee Expenses	9,308	10,194	11,302	12,524
Cost of material consumed	1,546	1,483	1,534	1,700
<b>EBITDA</b>	<b>491</b>	<b>585</b>	<b>863</b>	<b>956</b>
EBITDA Margin (%)	4%	5%	6%	6%
Depreciation	135	166	162	162
Interest (Net)	115	148	147	147
Other Income	10	-25	0	0
<b>PBT</b>	<b>285</b>	<b>288</b>	<b>582</b>	<b>678</b>
PBT Margin (%)	3%	2%	4%	4%
Tax	62	82	146	171
Adjusted PAT	223	206	435	507
Extraordinary Items	5	5	5	5
<b>Reported PAT</b>	<b>223</b>	<b>206</b>	<b>435</b>	<b>507</b>

Source: Company, Axis Securities

### Balance Sheet

(Rs Cr)

Y/E March	FY23	FY24	FY25E	FY26E
<b>Total assets</b>	<b>4,130</b>	<b>4,250</b>	<b>4,550</b>	<b>4,650</b>
Net Block	129	30	-65	-160
CWIP	12	16	18	22
Investments	1,278	1	1	1
Wkg. cap. (excl cash)	1,137	1,319	1,588	1,871
Cash / Bank balance	1,528	2,956	3,243	3,589
Misc. Assets	0	0	0	0
<b>Capital employed</b>	<b>4,130</b>	<b>4,250</b>	<b>4,550</b>	<b>4,650</b>
Equity capital	73	73	73	73
Reserves	2,494	2,700	3,135	3,643
Minority Interests	0	0	0	0
Borrowings	886	883	880	876
Def Tax Liabilities	910	910	910	910

Source: Company, Axis Securities

**Cash Flow**

(Rs Cr)

Y/E March	FY23	FY24	FY25E	FY26E
PBT	536	594	671	757
Add: Depreciation	126	137	154	172
Other Adjustments	-10	-10	-10	-10
Chg. in working capital	-157	-164	-170	-175
Taxes paid	-134	-149	-168	-189
Extra Ordinary Items	-	-	-	-
<b>CF from operations</b>	<b>277</b>	<b>310</b>	<b>360</b>	<b>416</b>
Change in fixed assets	-38	-38	-38	-38
Purchase of investment	-38	-38	-38	-38
Proceeds from Invest. Sale	10	10	10	10
Other Adjustments	4	4	4	4
<b>CF from Investing acti.</b>	<b>-7</b>	<b>-7</b>	<b>-7</b>	<b>-7</b>
Chg. in debt	-19	-24	-30	-37
Chg. in Equity capital	-	-	-	-
Chg. in Pref. capital	-	-	-	-
Dividend & dividend tax	-50	-50	-50	-50
<b>CF from Financing acti.</b>	<b>-7</b>	<b>-7</b>	<b>-8</b>	<b>-9</b>
Chg. in cash	26	30	34	40
Opening cash	4	3	2	1
Closing cash	1,528	2,956	3,243	3,589

Source: Company, Axis Securities

**Ratio Analysis**

(%)

Y/E March	FY23	FY24	FY25E	FY26E
<b>Per Share Ratios</b>				
Fully diluted E P S	17.63	19.57	22.13	25.01
Book Value	116.51	129.73	144.40	161.00
Dividend per share	2.90	2.90	2.90	2.90
<b>Valuation Ratio</b>				
P/E	22.98	20.70	18.30	16.19
P/BV	3.48	3.12	2.80	2.52
EV/EBITDA	13.58	12.52	11.34	10.31
EV/Sales	2.12	1.97	1.78	1.62
<b>Growth Ratios</b>				
Sales Growth	15%	9%	12%	12%
EBITDA Growth	-44%	10%	12%	12%
Net Profit Growth	31%	11%	13%	13%
EPS Growth	32%	11%	13%	13%
<b>Common Size Ratios</b>				
EBITDA Margin	16%	16%	16%	16%
EBIT margin	13%	13%	13%	13%
PAT margin	9%	9%	9%	10%
Employee cost	67%	67%	67%	67%
<b>Return ratios</b>				
RoNW	15%	15%	15%	16%
RoCE	19%	19%	19%	19%
<b>Solvency Ratios</b>				
Total Debt/Equity	16%	14%	13%	12%

Source: Company, Axis Securities

## SIS Ltd Price Chart and Recommendation History



Date	Reco	TP	Research
07-Feb-22	BUY	590	Result Update
06-May-22	BUY	590	Result Update
28-Jul-22	BUY	500	Result Update
04-Nov-22	BUY	475	Result Update
06-Feb-23	BUY	425	Result Update
05-May-23	BUY	425	Result Update
04-May-23	BUY	425	Result Update
27-Jul-23	BUY	475	Result Update
04-May-23	BUY	425	Result Update
31-Oct-23	BUY	425	Result Update
01-Feb-24	BUY	540	Result Update
03-May-24	BUY	540	Result Update

Source: Axis Securities

**About the analyst**

Omkar Tanksale

Research Analyst

omkar.tanksale@axissecurities.in

Call: (022) 4267 1737

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